

August 5, 2008
Shravana 14, 1930 (S)

The Chairman and Managing Director
State Bank of India & Associate Banks
17 Nationalised Banks
AXIS Bank Ltd / HDFC Bank Ltd / ICICI Bank Ltd / IDBI Bank Ltd / & SHCIL

Dear Sir,

8% Savings (Taxable) Bonds, 2003 - Income Tax Act, 1961 - TDS

Please refer to our circular No. RBI / 2007-08 / 141 with reference No. DGBA.CDD No. H-3024/13.01.299/2007-08 dated September 19, 2007 conveying certain clarifications with regard to application of Tax Deduction at Source (TDS) on 8 % Savings (Taxable) Bonds, 2003. In continuation thereof, the following clarifications, as furnished by CBDT, on a few more aspects of application of TDS on the captioned bonds are given below.

Sl. No.	Issue	Comments
1.	Whether TDS is required to be deducted only on new bonds purchased on and from 1.6.2007 or bonds purchased prior to that date when TDS was made applicable.	Tax Deduction at Source on 8 % Savings (Taxable) Bonds, 2003 is effective from 1.6.2007. Any interest credited or paid on 8 % Savings (Taxable) Bonds, 2003 on or after 1.6.2007 will attract TDS if the amount of interest exceeds 10,000/- rupees for the financial year. Therefore, the date of investment is not a relevant factor. TDS would, thus, apply to existing bond holders also.

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2.	At what rate TDS is required to be deducted in respect of individuals, HUFs and Institutions?	<p>The rates of TDS for various category of persons are as under:</p> <table border="1" data-bbox="688 302 1365 537"> <thead> <tr> <th rowspan="2">Recipient</th> <th colspan="2">Resident in India (TDS* Rate)</th> <th>Non Resident in India (TDS*Rate)</th> </tr> <tr> <th>For period 1.6.2007 to 31.3.2008</th> <th>1.4.2008 onwards</th> <th>Before or after 1.6.2007</th> </tr> </thead> <tbody> <tr> <td>Company</td> <td>20 %</td> <td>20 %</td> <td>40 %</td> </tr> <tr> <td>Other than a Company</td> <td>20 %</td> <td>10 %</td> <td>30 %</td> </tr> </tbody> </table> <p>*Surcharge and Cess is to be added as per applicable rates.</p>	Recipient	Resident in India (TDS* Rate)		Non Resident in India (TDS*Rate)	For period 1.6.2007 to 31.3.2008	1.4.2008 onwards	Before or after 1.6.2007	Company	20 %	20 %	40 %	Other than a Company	20 %	10 %	30 %
Recipient	Resident in India (TDS* Rate)			Non Resident in India (TDS*Rate)													
	For period 1.6.2007 to 31.3.2008	1.4.2008 onwards	Before or after 1.6.2007														
Company	20 %	20 %	40 %														
Other than a Company	20 %	10 %	30 %														
3.	Whether Form 15G, 15H can be accepted from eligible individual investors and HUFs and exemption from TDS allowed to them even though interest income exceeds the exemption limit and if the investor declares that his total income for that year will not be taxable on account of investment made by him in various tax savings schemes.	<p>1. Declaration in form 15G can be accepted from a person not being a company or a firm if</p> <ol style="list-style-type: none"> the tax on his estimated total Income of the previous year in which such income is to be included in computing the total income will be nil; and the aggregate of income from (i) dividend other than dividends from domestic companies, (ii) interest on securities, (iii) interest other than interest on securities, (iv) repayment of deposits under the National Saving Scheme, and (v) income in respect of units does not exceed the maximum amount which is not chargeable to tax. <p>2. Declaration in form 15H can be accepted from an individual resident in India, who is of the age of sixty-five years or more at any time during the previous year if</p> <ol style="list-style-type: none"> tax on his estimated total income of the previous year in which such income is to be included in computing his total income will be nil. 															
4	In case of 'cumulative' type of investments, interest is payable on the date of maturity. In such cases, whether the TDS is required to be deducted on entire interest payable on the date of maturity or on deemed date of payment i.e. on accrual basis every year.	On 'cumulative' type of investments, if the interest is credited every year, tax deduction has to be made if the interest credited during the financial year exceeds the threshold limit of Rs. 10,000/-. Thus, in the case of 'cumulative' type of investments, though the interest is payable on the date of maturity, tax deduction is still to be made whenever the interest credited or paid exceeds the threshold limit during the financial year.															

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5.	In case of charitable institutions and trusts which are exempted from payment of Income Tax, whether exemption certificates issued by an Income Tax Officer should be insisted upon before allowing tax exemption or by their very nature of charitable, they are eligible for exemption from TDS	<p>A certificate issued by the Assessing Officer under section 197 of the Income Tax Act for deduction of tax at a lower rate or Nil rate is required in the case of charitable institutions and trusts.</p> <p>No special dispensation is allowed to charitable institutions and trusts as far as TDS discipline is concerned.</p>
6.	Tax is required to be deducted at source on the interest exceeding Rupees ten thousand payable during the 'financial year' on 8 % Savings (Taxable) Bonds, 2003 with effect from June 1, 2007. The half-yearly interest payable on August 1, 2007 has accrued from 1.2.2007 onwards. In such situations, whether interest accrued after 1.6.2007 is to be considered for TDS.	TDS is required to be deducted for interest credited or paid on or after 01.06.2007 whichever is earlier, if the amount of interest exceeds 10,000/- rupees for the financial year. Hence, in this particular case if the half-yearly interest payable on 01.08.2007 is credited or paid on or after 01.06.2007, then tax is required to be deducted at source on the entire amount so credited or paid whichever is earlier.

2. We advise you to ensure that application of TDS on the captioned bonds is made in the light of the above clarifications and the relevant provisions of the Income Tax Act, 1961. You may issue suitable instructions to designated branches operating the scheme. You may also access this circular on our website www.rbi.org.in

3. Please acknowledge the receipt.

Yours faithfully

(Dr. Balu K.)
Deputy General Manager